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**Hydro-Québec
Annual Report
1976**

AR37

Financial Statements and Statistics

17-11-1976

Hydro-Québec
Annual Report
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Financial Statements and Statistics

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Auditors' Report

We have examined the consolidated balance sheet of Hydro-Québec as at December 31, 1976, and the consolidated statements of revenue and expenditure, reserves, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Hydro-Québec as at December 31, 1976, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Canada,
April 7, 1977.

Samson, Bélair & Associés
Chartered Accountants

H. Marcel Caron & Associés
affiliated with Clarkson, Gordon & Co.
Chartered Accountants

Consolidated Statement of Revenue and Expenditure
(in thousands of dollars)
for the year ended December 31

		1976	1975
Revenue	Sales of electricity: primary	\$ 1,002,634	\$ 850,082
	secondary	43,601	42,529
		<u>1,046,235</u>	<u>892,611</u>
	Increase in unbilled revenue	24,963	11,599
		<u>1,071,198</u>	<u>904,210</u>
	Other operating income (net)	20,615	17,879
		<u>1,091,813</u>	<u>922,089</u>
Expenditure	Operating, maintenance, administration and other expenses	328,874	266,392
	Power purchased	113,660	106,633
	Provision for renewals (depreciation)	92,786	84,394
	Provincial levy	20,000	20,000
	School and municipal taxes	19,209	18,806
		<u>574,529</u>	<u>496,225</u>
Net operating income		<u>517,284</u>	<u>425,864</u>
	Interest (Note 6)	206,644	196,114
Net income before allocations to reserves		<u>\$ 310,640</u>	<u>\$ 229,750</u>
Allocations to reserves	Interest	\$ 134,671	\$ 107,773
	Provisions:		
	Contingencies	121,602	74,163
	Rate stabilization	21,424	18,084
	Amortization of capital invested	32,943	29,730
		<u>175,969</u>	<u>121,977</u>
		<u>\$ 310,640</u>	<u>\$ 229,750</u>

See accompanying notes

Consolidated Balance Sheet

(in thousands of dollars)

as at December 31

Assets		1976	1975
Fixed assets	Property and plant:		
	In service	\$ 5,880,406	\$ 5,306,976
	Less reserve for renewals (accumulated depreciation)	1,177,461	1,092,022
		<u>4,702,945</u>	<u>4,214,954</u>
	Construction work in progress	2,633,599	1,970,380
		<u>7,336,544</u>	<u>6,185,334</u>
	Construction, operating and research equipment, at cost		
	less accumulated depreciation	70,799	63,658
		<u>7,407,343</u>	<u>6,248,992</u>
Current assets	Cash and short-term investments	1,085,853	295,668
	Accounts receivable and accrued interest	203,700	121,288
	Unbilled revenue	101,744	76,781
	Materials and supplies	73,083	68,020
	Prepaid expenses	6,340	5,972
		<u>1,470,720</u>	<u>567,729</u>
Other assets	Investments (Note 2)	131,819	131,925
	Unamortized debenture discount and expenses	80,910	73,062
	Accounts receivable	4,316	7,998
	Unamortized deferred cost on purchase of energy	37,615	38,579
		<u>254,660</u>	<u>251,564</u>
		<u>\$9,132,723</u>	<u>\$ 7,068,285</u>

Liabilities and Reserves		1976	1975
Long-term debt	Bonds and debentures less sinking funds (Notes 3 and 4)	\$ 6,497,660	\$ 4,864,179
	Net exchange premium (Note 4)	59,659	77,266
		6,557,319	4,941,445
	Other long-term debt (Note 5)	91,917	59,649
		6,649,236	5,001,094
	Less payable within one year	82,919	91,301
		6,566,317	4,909,793
<hr/>			
Notes payable	Notes payable within two years, of which \$21,472 (1976) and \$20,637 (1975) are due within one year	21,472	25,137
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Current liabilities	Bank indebtedness	8,437	16,762
	Accounts payable and accrued liabilities	288,481	219,962
	Accrued interest	175,563	126,339
	Long-term debt payable within one year	82,919	91,301
		555,400	454,364
<hr/>			
Other liabilities	Workmen's compensation awards	2,481	2,208
	Customers' deposits and advances	9,695	10,065
		12,176	12,273
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Reserves	Contingencies	860,544	683,699
	Rate stabilization	345,707	300,040
	Amortization of capital invested	771,107	682,979
		1,977,358	1,666,718
<hr/>			
		\$9,132,723	\$ 7,068,285
<hr/>			

See accompanying notes

On behalf of Hydro-Québec:
(signed) Roland Giroux
(signed) Robert Boyd

(signed) E.-A. Lemieux
General Manager,
Finance.

Montreal, Canada,
April 7, 1977.

Consolidated Statement of Reserves
(in thousands of dollars)
for the year ended December 31

	1976				1975
	Contingencies	Rate stabilization	Amortization of capital invested	Total	Total
Balance, beginning of year	\$ 683,699	\$ 300,040	\$ 682,979	\$ 1,666,718	\$ 1,436,968
Add:					
Interest	55,243	24,243	55,185	134,671	107,773
Provisions	121,602	21,424	32,943	175,969	121,977
Balance, end of year	\$860,544	\$345,707	\$771,107	\$1,977,358	\$ 1,666,718

See accompanying notes

Consolidated Statement of Changes in Financial Position

(in thousands of dollars)

for the year ended December 31

	1976	1975
Source of funds		
Operations		
Net income before allocations to reserves	\$ 310,640	\$ 229,750
Add (deduct) items not requiring a movement of funds:		
Provision for renewals (depreciation)	92,786	84,394
Depreciation of operating and research equipment	10,774	8,703
Amortization of debenture discount and expenses	5,430	4,602
Amortization of deferred cost on purchase of energy	964	367
Net profit on repurchase of debentures	(8,542)	(10,694)
Total funds from operations	<u>412,052</u>	<u>317,122</u>
Issue of debentures and other long-term debt (less discount and expenses)	1,765,220	1,080,008
Increase of accounts payable and accrued liabilities, accrued interest and other liabilities	117,646	101,637
Sundry items	6,254	5,756
	<u>\$2,301,172</u>	<u>\$ 1,504,523</u>
Application of funds		
Additions to fixed assets	\$ 1,266,978	\$ 1,141,766
Maturities of bonds and debentures and other long-term debt	42,024	99,085
Purchase of sinking fund investments (cost)	63,264	55,338
Decrease in notes payable	3,665	20,004
Increase in cash and short-term investments less bank indebtedness	798,510	150,004
Increase in accounts receivable and accrued interest and unbilled revenue	103,693	29,905
Increase in materials and supplies and prepaid expenses	5,431	14,537
Decrease (increase) in net exchange premium	17,607	(6,116)
	<u>\$2,301,172</u>	<u>\$ 1,504,523</u>

See accompanying notes

Notes to Consolidated Financial Statements

December 31, 1976

Note 1

Summary of
significant accounting
policies

A summary of the major accounting policies of Hydro-Québec is presented below to assist the reader in analyzing the consolidated financial statements.

a) Consolidation

The consolidated financial statements include the financial statements of Hydro-Québec and of all its subsidiary companies including Société d'énergie de la Baie James.

b) Rates and Reserves

Under the provisions of its Act the object of Hydro-Québec is to supply power in the Province of Quebec at the lowest rates consistent with sound financial administration. More specifically, the Hydro-Quebec Act provides that the rates should be maintained at a level sufficient to defray all costs and to accumulate three reserves: Contingencies, Rate stabilization and Amortization of capital invested. Rates are fixed by Hydro-Québec and are subject to the approval of the Lieutenant-Governor in Council.

Each year, Hydro-Québec must credit to these three reserves, from its net income, interest calculated at a rate equivalent to the weighted average of the effective interest rates on its outstanding long-term debt (8.08% in 1976 and 7.5% in 1975). The balance of net income is allocated to the reserves and contributes to an adequate coverage of interest charges and to the financing of part of the construction program.

The three reserves constitute the net worth of Hydro-Québec.

c) Investments

All of the short-term investments mature within seven months and are shown at cost, which approximates market value. The long-term investments are carried at cost (see Note 2).

d) Materials and supplies

Hydro-Québec values its inventories of materials and supplies on the basis of average cost. These materials and supplies are primarily those required for the construction and maintenance of its distribution system.

e) Unamortized deferred cost on purchase of energy

In accordance with the terms of a contract with Churchill Falls (Labrador) Corporation Limited ("CFLCo") (see Note 8), Hydro-Québec absorbs the part of the interest charges attributable to the excess of the effective interest rate on the First Mortgage Bonds of CFLCo over 5½% and on the General Mortgage Bonds and other indebtedness over 6%. The portion of these payments, which has been deferred before the plant reached full production in 1975, is amortized over the life of the contract (40 years) by charges to the cost of power purchased. Annual payments which Hydro-Québec has to make under this agreement are also charged to the cost of power purchased.

f) Sinking funds

Hydro-Québec invests substantially all of its sinking funds in its own debentures and in bonds of its subsidiaries and follows the practice of carrying these investments at par, which may not be indicative of cost or current market value. The resulting profit, net of unamortized debenture or bond discount and other expenses, is included with interest expense in the consolidated statement of revenue and expenditure. Debentures or bonds of an issue purchased for the sinking fund of that issue are cancelled.

g) Foreign exchange translation (see Note 4)

Consolidated long-term debt payable in U.S. currency is carried in the accounts at the rate of \$1 U.S. equals \$1 Canadian, while consolidated long-term debt payable in Deutsche marks and Swiss francs is carried in the accounts at the Canadian dollar equivalent at the dates of borrowing.

The adjustment arising from the conversion of debt payable in U.S. funds into Canadian funds at the rates of exchange in effect at the time the debt was incurred, less the exchange premium on debentures purchased for sinking funds, is carried on the consolidated balance sheet in a separate account called "Net exchange premium".

Current assets and liabilities, including long-term debt payable within one year, are adjusted to Canadian currency at year-end rates of exchange and the resulting unrealized exchange gains or losses are included with interest expense in the consolidated statement of revenue and expenditure.

Exchange gains and losses at maturities of debentures and at purchases for sinking funds are included with interest expense in the consolidated statement of revenue and expenditure.

h) Property and plant and Reserve for renewals (accumulated depreciation)

Property and plant are carried at cost which includes material, direct labor and overhead costs such as engineering and administration that are applicable to the capital construction program. The cost also includes interest charged to Construction work in progress as explained under i) below. Expenditures for additions, improvements and renewals are capitalized and expenditures for maintenance and repairs are charged against income. When assets are sold or retired, their cost and accumulated depreciation are removed from the accounts and any gain or loss resulting from their disposal is amortized over a period of 10 years using a sinking fund method.

Preliminary engineering, investigation work and survey costs incurred on projects before their authorization for construction are included in Construction work in progress and no interest is charged on these costs until such authorization. When a project is abandoned its costs are charged to operations.

The costs of generating facilities are transferred to Property and plant in service by instalments proportionate to the number of generating units completed and in service in relation to the total number of units of the project. The costs of transmission, distribution and other facilities are transferred to Property and plant in service when completed and in commercial operation.

Hydro-Québec uses a uniform sinking fund method of providing for depreciation of its own and its subsidiaries' property and plant, including intangible assets, based on their respective service lives. The rate of interest used in the sinking fund method is 3%.

Note 1 — Summary of significant accounting policies (cont'd)

The expected service lives for the main categories of property and plant in service are as follows:

Category	Life
Hydraulic powerhouses	50 years
Hydraulic turbines and generators	40 years
Dams and reservoirs	50 years
Transmission towers (steel) and conductors	50 years
Distribution poles (wood)	25 years
Distribution conductors	40 years
Intangible assets	25 years

i) Interest charged to Construction work in progress

Interest is charged to Construction work in progress at a rate equivalent to the weighted average of the effective interest rates on debentures of Hydro-Québec issued to finance such construction. This rate was 9.47% in 1976 and 8.96% in 1975.

j) Construction, operating and research equipment

This equipment is carried at cost. Hydro-Québec uses the straight-line method of providing for depreciation of these assets based on their respective service lives. The cost of equipment used for the construction of major generating facilities is included in Construction work in progress.

k) Unbilled revenue

Revenues are recorded on the basis of cycle billings and accrued in respect of energy delivered but not billed.

Note 2	1976 (\$'000')	1975 (\$'000')
Churchill Falls (Labrador) Corporation Limited (see Note 8)		
General Mortgage Bonds, 7½%, due 2010 (par value \$100 million)	\$ 90,500	\$ 90,500
Common shares	34,333	34,333
	124,833	124,833
Gelco Enterprises Ltd., 4% unsecured note, due 1991	6,895	7,000
Sundry investments	91	92
	\$131,819	\$ 131,925

On November 16, 1976, Churchill Falls (Labrador) Corporation Limited ("CFLCo") qualified for exemption from income taxes, and accumulated deferred income taxes of \$28,084,000 since the beginning of its operations to that date have been added during the year to its retained earnings. The share of Hydro-Québec in the retained earnings of CFLCo amounted to \$37,295,000 at December 31, 1976, including its share of the above adjustment, of which \$7,280,000 was earned in 1976 (after deduction of income taxes to November 16, 1976) and \$9,135,000 in 1975. Dividends of \$2,545,000 from CFLCo are included in investment income in 1976 (see Note 6).

The shareholders have agreed in principle that CFLCo will make payments to the Province of Newfoundland in future years equivalent to Newfoundland's share in the income taxes that would have been paid if CFLCo had remained subject to such taxes. As the Province of Newfoundland would have received substantially all of the income taxes paid by CFLCo, Hydro-Québec's share in the earnings of CFLCo and its payment of part of CFLCo's interest costs should not change significantly.

Note 3

Series	Interest rate	Year of issue	Year of maturity	Bonds and debentures (\$'000')	Sinking fund investments (\$'000')
Debentures of Hydro-Québec — Guaranteed by the Province of Quebec					
*"K"	3½%	1953	1978	\$ 32,548 U.S.	\$ 19,744
*"N"	3½%	1956	1981	20,702 U.S.	3,712
*"P"	4¼%	1956	1981	15,187 U.S.	2,152
*"Q"	4¾%	1957	1977	28,145 U.S.	
*"S"	5%	1957	1982	13,734	
*"T"	3¾%	1958	1983	26,116 U.S.	290
*"V"	5%	1958	1979	14,176	
*"W"	5%	1959	1980	19,755	
*"X"	5%	1959	1984	32,810 U.S.	
*"Y"	6%	1959	1979	17,280	
*"Z"	5½%	1960	1982	23,889	
*"AA"	5½%	1960	1983	18,182	
*"AB"	5½%	1961	1985	28,559	
*"AC"	5½%	1961	1985	26,316	
*"AD"	5½%	1962	1982	30,216	
*"AF"	5¾%	1962	1984	39,534	
*"AG"	5%	1963	1988	228,962 U.S.	688
*"AM"	5¼%	1963	1986	36,752	
*"AN"	5½%	1964	1984, 1994	30,903	

Note 3 — Bonds and debentures (cont'd)

Series	Interest rate	Year of issue	Year of maturity	Bonds and debentures (\$'000')	Sinking fund investments ('000')
*"AQ"	4½%	1964	1994	\$ 50,000 U.S.	\$ 2,655
*"AP"	4¾%	1964	1989	37,595 U.S.	
*"AQ"	5½%	1964	1988	46,182	
*"AR"	5½%, 5%	1965	1987, 1995	56,607	
*"AS"	4¾%	1965	1985	42,898 U.S.	
*"AT"	5¼%	1966	1987	42,641 U.S.	
*"AU"	6%	1966	1991	41,866	
*"AV"	5¾%	1966	1992	52,075 U.S.	
*"AW"	6%	1966	1980, 1990	40,973	272
*"AX"	6¼%	1966	1991	32,507 U.S.	
*"AY"	6¼%	1967	1993	50,385 U.S.	
*"AZ"	6½%	1967	1978, 1990	42,330	
*"BA"	6¼%	1967	1993	43,999 U.S.	
*"BB"	6½%	1967	1992	42,525 U.S.	
*"BC"	6¾%, 7%, 6%, 7%	1967	1977, 1980, 1994	46,500	
*"BD"	6¾%	1968	1989	54,603 U.S.	
*"BE"	7½%, 7½%, 7%	1968	1977-78, 1980, 1994	40,400	
*"BF"	7¾%	1968	1986	23,258 U.S.	500
*"BG"	7¼%	1968	1991	43,620 U.S.	
* —	6¾%	1969	1984 (120 million Deutsche marks)	32,173	4,082
* —	7¼%	1969	1984 (80 million Deutsche marks)	21,636	
*"BH"	7¾%	1969	1990	206	7
*"BI"	8¼%	1969	1999	47,485 U.S.	
"BJ"	8%	1969	1979	5,861 U.S.	
*"BK"	8½%	1969	1992	24,728	
*"BL"	9¾%	1969	1995	47,407 U.S.	815
*"BM"	9½%	1970	1990	5,635	
*"BN"	9¼%	1970	1995	58,038 U.S.	600
*"BO"	9½%	1970	1990	28,085	
*"BP"	9½%	1970	1997	72,368 U.S.	
*"BQ"	9¼%	1970	1985	11,100 U.S.	
*"BR"	8¾%	1971	1999	72,913 U.S.	
*"BS"	8¼%	1971	1986	16,000 U.S.	
*"BT"	7¾%	1971	1996	47,350	
*"BU"	8¾%	1971	1996	47,549	
* —	8%	1971	1986 (100 million Deutsche marks)	29,835	
*"BV"	8½%	1971	2001	75,000 U.S.	
*"BW"	8½%	1971	1986	22,888 U.S.	19
*"BX"	7¾%	1972	2002	100,000 U.S.	
* —	6½%	1972	1987 (100 million Deutsche marks)	31,391	
*"BY"	8¼%	1972	1997	47,894	
*"BZ"	8¼%	1972	1993	57,500	
*"CA"	8%, 8¾%	1972	1980, 1997	62,689	
"CB"	8¼%	1972	1996	50,000	
* —	6¼%	1972	1987 (80 million Swiss francs)	21,021	
*"CC"	7½%	1973	2003	125,000 U.S.	
"CD"	8%	1973	1998	50,000	
* —	6½%	1973	1988 (100 million Deutsche marks)	35,234	
"CE"	8¼%	1973	1998	55,000	
*"CF"	8½%	1973	2003	100,000 U.S.	
"CG"	8¾%	1973	1998	50,000	
"CH"	8½%	1973	1998	50,000	
*"CI"	8¼%	1974	2004	125,000 U.S.	
*"CJ"	8½%	1974	1989	30,000 U.S.	100
"CK"	9%	1974	1999	60,000	
"CL"	9¾%	1974	1996	80,000	
*"CM"	10¼%	1974	1999	150,000 U.S.	
—	9%	1974	1979 (40 million Swiss francs)	13,200	
"CN"	10%	1974	1980	50,000	
"CO"	10%	1974	1982	100,000	
"CP"	10%	1974	1982	100,000 U.S.	
*"CQ"	10¼%	1975	2005	200,000 U.S.	
"CR"	9%, 9¾%	1975	1985, 2000	120,000	
"CS"	10%	1975	2000	80,000	
*"CT"	9¾%	1975	2005	200,000 U.S.	
"CU"	10¼%	1975	1997	65,000	

Note 3 — Bonds and debentures (cont'd)

Series	Interest rate	Year of issue	Year of maturity	Bonds and debentures (\$'000')	Sinking fund investments (\$'000')
—	8%	1975	1980 (100 million Swiss francs)	\$ 38,400	
"CV"	9½%	1975	1981	50,000	
*"CW"	10%	1975	2005	250,000 U.S.	
—	7¾%	1975	1980 (100 million Swiss francs)	38,500	
*"CX"	10¼%	1976	1996	1,000,000 U.S.	
*"CY"	10¾%	1976	1996	35,000	
* —	6%	1976	1991 (80 million Swiss francs)	31,900	
*"CZ"	8½%	1976	2006	250,000 U.S.	
"DA"	10%	1976	2001	120,000	
"DB"	8½%	1976	1986	125,000 U.S.	
*"DC"	8¾%	1976	1996	50,000 U.S.	
—	5¾%	1976	1981 (100 million Swiss francs)	41,400	
—	5¾%	1976	1981 (100 million Swiss francs)	41,400	
—	5¾%	1976	1981 (100 million Swiss francs)	41,400	
Total debentures of Hydro-Québec				\$6,502,916	\$ 35,636

*Sinking fund debentures

Bonds of subsidiaries

The Shawinigan Water and Power Company

"S" 5¾% 1961 1981 \$ 12,642

Southern Canada Power Company, Limited

"D" 3¾% 1951 1981 2,475

Quebec Power Company

"G" 6¼% 1962 1982 10,983

Lower St. Lawrence Power Company

"F" 5⅞% 1959 1984 820 U.S.

Saguenay Electric Company

"A" 5½% 1962 1982 3,460

Total bonds of subsidiaries **\$ 30,380**

Total bonds and debentures **\$6,533,296** **\$ 35,636**

Bonds of subsidiaries are guaranteed by Hydro-Québec, which guarantee is in turn guaranteed by the Province of Quebec

Consolidated long-term debt maturities and sinking fund requirements in each of the next five years are approximately as follows:

	(\$'000')
1977	\$ 82,919
1978	\$ 110,680
1979	\$ 186,060
1980	\$ 326,015
1981	\$ 377,506

Note 4

Net exchange premium

Consolidated long-term debt at December 31, 1976 includes \$4,073,874,000 U.S., 465 million Deutsche marks and 700 million Swiss francs.

If the long-term debt payable in foreign currencies were converted into Canadian dollars at the rates of exchange prevailing at December 31, 1976, the premium required would be approximately \$59,166,000 more than the net exchange premium shown on the consolidated balance sheet. As a result, if the long-term debt payable in various currencies in the principal amount of \$6,566,317,000 at December 31, 1976 were converted into Canadian dollars at the rates of exchange prevailing on this date, this principal amount would be \$6,625,483,000.

Note 5		1976 (\$'000')	1975 (\$'000')
Other long-term debt	Rural Electrification Bureau, 1977 — 1994*	\$ 5,628	\$ 6,327
	Government of Canada, 1977 — 1999**	19,975	20,308
	Atomic Energy of Canada Limited**	66,000	32,000
	Other long-term debt maturing from 1977 to 1984	314	1,014
		\$91,917	\$ 59,649

*Does not bear interest as long as there is no default under the provisions of the governing agreements.

**Notes guaranteed by the Province of Quebec at various rates from 7 $\frac{3}{16}$ % to 10% payable in 25 equal annual instalments following completion of the project involved. On March 18, 1977, Hydro-Québec issued to Atomic Energy of Canada Limited a note for \$44 million, bearing interest at the rate of 8 $\frac{3}{4}$ %.

Note 6		1976 (\$'000')	1975 (\$'000')
Interest	Interest on long-term debt	\$ 485,567	\$ 344,330
	Interest on bank indebtedness and notes payable	4,143	3,732
	Amortization of debenture discount and expenses	5,430	4,602
		495,140	352,664
Less:			
	Interest charged to construction work in progress	186,178	118,826
	Investment income	93,475	27,222
	Net profit on repurchase of debentures	8,542	10,694
	Foreign exchange gain (loss) on repurchase of debentures and translation of foreign current assets and liabilities	301	(192)
		288,496	156,550
		\$206,644	\$ 196,114

Note 7
Pensions The Hydro-Québec employees' retirement plan is a contributory, benefit-based plan, under which the benefits payable are guaranteed by Hydro-Québec. The initial actuarial deficit in respect of services prior to 1966 and the experience deficiency for current services amounted to approximately \$28 million and \$5 million, respectively, at December 31, 1974 as determined by an actuarial survey at that date.

The total pension cost of \$23,833,000 for 1976 (\$19,915,000 for 1975) provides fully for Hydro-Québec's contribution to the Quebec Pension Plan and to the Retirement Fund in respect of current services, amortization of the experience deficiency over a five-year period and amortization of the initial actuarial deficit over a period ending December 31, 1995.

An additional past service obligation, which amounted to approximately \$34 million at December 31, 1974 as determined by an actuarial study at that date, related to supplementary amounts that Hydro-Québec has decided to pay effective January 1, 1972 in order to assure a minimum pension of \$1,200 per year and to adjust the pensions paid or to be paid to the pensioners of the subsidiaries acquired in 1963, is being substantially amortized over a period of thirty years by annual charges to operations. Hydro-Québec paid \$2,168,000 in 1976 (\$1,902,000 in 1975) in respect of these benefits.

In addition to the preceding, effective January 1, 1976, Hydro-Québec has decided to raise all full pensions by \$600 per year and all half pensions by \$300 per year and to increase the minimum pension from \$1,200 to \$1,500 per year for all its pensioners, as well as those subject to pension before December 31, 1976. This additional past service obligation is estimated to cost approximately \$10.8 million according to an actuarial study as at December 31, 1975 and will be substantially amortized over a period of 30 years by annual charges to operations. Hydro-Québec paid \$1,111,000 in 1976 in respect of these benefits.

Note 8
Commitments and projected capital expenditures **Churchill Falls**
In May 1969, Hydro-Québec executed a contract with Churchill Falls (Labrador) Corporation Limited ("CFLCo") for the purchase, starting in 1972, of energy from a generating station at Churchill Falls in Labrador with a rated capacity of 5,225,000 kilowatts. At December 31, 1976, Hydro-Québec held 34.2% of the common stock of CFLCo and \$100 million of its General Mortgage Bonds at a total cost of approximately \$124.8 million.

The power contract provides for the purchase by Hydro-Québec for a period of 40 years from the Effective Date as defined in the power contract (September 1, 1976) of all the power generated at Churchill Falls except for amounts required (not exceeding 12% of the energy generated) by Newfoundland. This contract will be automatically renewed for a further period of 25 years upon already agreed terms. The price to be paid by Hydro-Québec for the energy, which should be finalized in 1977, will vary until the year 2016 and will depend upon the final cost of construction of the plant. It is estimated that the maximum total annual payments by Hydro-Québec for energy will range from \$93 million to \$80 million until the year 2016 and will be approximately \$63 million during the remaining 25 years.

Note 8 — Commitments and projected capital expenditures (*cont'd*)

In addition, Hydro-Québec is obligated to pay CFLCo an amount equal to a part of the interest charges on the First Mortgage Bonds, General Mortgage Bonds and other indebtedness of CFLCo. Hydro-Québec estimates that these payments will not exceed \$15 million per annum, declining as the bonds and other indebtedness are retired. Subject to certain limitations and compensations, the contract requires Hydro-Québec to make payments for energy whether or not taken; Hydro-Québec can also be required to make additional advances, against the issue of units of Subordinated Debentures and shares of Common Stock, to service the debt of CFLCo and to cover its expenses if funds are not otherwise available.

On September 14, 1976, CFLCo and Hydro-Québec were served with concurrent Writs of Summons and a Statement of Claim in an action brought by the Attorney General of Newfoundland before the Supreme Court of Newfoundland, seeking a judgment declaring that Newfoundland is entitled under the CFLCo lease to make a request to CFLCo for 800 megawatts of power generated from the waters of the Upper Churchill River watershed commencing October 1, 1983, that CFLCo is obliged to comply with such request, and that such compliance would not constitute a default under the power contract or the financing agreements of CFLCo. Under the terms of the Writ of Summons served upon it, Hydro-Québec will cause an Appearance and Defense to be entered in the action. Hydro-Québec has been advised by its counsel, Geoffrion, Prud'homme, Chevrier, Cardinal, Marchessault, Mercier & Greenstein, that the validity of the power contract with CFLCo and the enforceability thereof according to its terms cannot be successfully challenged before the courts, and in particular that the above action, insofar as it claims a declaration which would affect the existing rights of Hydro-Québec under the power contract, is unfounded.

James Bay

In 1971, the Quebec Government created Société de développement de la Baie James to undertake the development of the natural resources in northwestern Quebec and Société d'énergie de la Baie James to develop the hydro-electric resources of the same area.

At December 31, 1976, all the shares of the authorized capital stock of Société d'énergie de la Baie James were either owned or subscribed for by Hydro-Québec.

The James Bay project currently consists of the construction of four generating plants on the La Grande River with a projected capacity of 10,190,000 kilowatts at an estimated cost in 1974 of \$11.9 billion, revised to \$16.2 billion in 1976, with completion expected in 1985. At December 31, 1976, \$2 billion has been invested in the project.

In May 1972, the James Bay Crees and Inuit of Quebec instituted proceedings in the Superior Court for the District of Montreal to have the James Bay Region Development Act declared unconstitutional and ultra vires of the jurisdiction of the Legislature of Quebec, and, in addition, to obtain a permanent order of injunction to prevent the carrying out of all works in the James Bay Territory related to this Act.

Following various interlocutory proceedings, an agreement in principle was entered into on November 15, 1974 by the James Bay Crees and Inuit of Quebec and the Province of Quebec, Société d'énergie de la Baie James, Société de développement de la Baie James, Hydro-Québec and the Government of Canada whereby the parties undertook to execute a final agreement, providing, among other things, for the extinguishment of all claims of the James Bay Crees and Inuit of Quebec in and to the territory on which the project is located.

The final agreement, signed on November 11, 1975, was subsequently confirmed by the James Bay Crees and Inuit of Quebec. The agreement is subject to enactment within two years of implementing legislation by the Quebec National Assembly and the Government of Canada approving, giving effect to and declaring valid the said agreement.

The final agreement provides for the termination of all current legal proceedings and the undertaking not to institute any future legal proceedings affecting the project and the claims of the James Bay Crees and Inuit of Quebec with respect thereto. It also provides for a final basic monetary compensation of \$225 million. Of this amount, \$75 million is to be paid by Société d'énergie de la Baie James or Hydro-Québec, in instalments to be determined with reference to the future installation of hydro-electric generating capacity within the territory. Such instalments, which have not been provided for in the accounts, will commence one year after each turbine generator has been in commercial operation, will then be charged to operations and will extend to December 31, 1996, at which date the balance, if any, is payable. Another \$75 million is to be paid over a period of ten years from March 31, 1976 to January 1, 1985 to the extent of 57% by the Province (and/or a corporation designated by the Province) and to the extent of 43% by the Government of Canada. The balance of \$75 million is to be paid by the Province.

Projected capital expenditures

Hydro-Québec carries on a continuous construction program in anticipation of future demand for electrical power in the Province. The capital expenditures projected for the calendar year 1977 amount to \$2,173 million, including \$1,413 million for the James Bay project.

Note 9

Anti-inflation Program

On December 19, 1975, the Government of the Province of Quebec sanctioned An Act Respecting Anti-Inflation Measures. On March 16, 1977, the Act was abrogated. According to the regulations adopted in virtue of this Act, Hydro-Québec was not subject to the Inflation Control Commission in respect of its prices and profit margins but was expressly subject to it in respect of compensation control.

Note 10

Reclassification and comparative figures

At December 31, 1976, Hydro-Québec has shown the current portion of its long-term debt under current liabilities and has regrouped under interest certain items in the consolidated statement of revenue and expenditure. The comparative figures for 1975 have been reclassified accordingly.

Five-Year Summary of Consolidated Revenue and Expenditure
(in thousands of dollars)

		1976	1975	1974	1973	1972
Revenue	Sales of electricity: primary	\$ 1,002,634	\$ 850,082	\$ 738,866	\$ 638,628	\$ 552,768
	secondary	43,601	42,529	36,542	15,475	8,377
		1,046,235	892,611	775,408	654,103	561,145
	Increase in unbilled revenue	24,963	11,599	7,764	7,542	7,449
		1,071,198	904,210	783,172	661,645	568,594
	Other operating income (net)	20,615	17,879	14,709	12,785	11,554
		1,091,813	922,089	797,881	674,430	580,148
Expenditure	Operating, maintenance, administration and other expenses	328,874	266,392	236,853	201,641	172,300
	Power purchased	113,660	106,633	86,930	62,753	34,446
	Provision for renewals (depreciation)	92,786	84,394	78,447	75,439	70,030
	Provincial levy on energy generated	—	—	—	8,222	29,882
	Provincial levy	20,000	20,000	20,000	15,000	—
	School and municipal taxes	19,209	18,806	18,379	18,783	18,875
		574,529	496,225	440,609	381,838	325,533
Net operating income		517,284	425,864	357,272	292,592	254,615
Interest	Interest on long-term debt	485,567	344,330	259,472	224,062	191,511
	Interest on bank indebtedness and notes payable	4,143	3,732	4,085	3,652	4,636
	Amortization of debenture discount and expenses	5,430	4,602	3,990	3,820	3,524
	Interest charged to construction work in progress	(186,178)	(118,826)	(62,757)	(40,412)	(25,825)
	Investment income	(93,475)	(27,222)	(15,150)	(10,449)	(10,775)
	Net profit on repurchase of debentures	(8,542)	(10,694)	(6,740)	(7,632)	(6,405)
	Foreign exchange (gain) or loss on repurchase of debentures and translation of foreign current assets and liabilities	(301)	192	(2,251)	(1,058)	(954)
		206,644	196,114	180,649	171,983	155,712
Net income before allocations to reserves		\$ 310,640	\$ 229,750	\$ 176,623	\$ 120,609	\$ 98,903
Allocations to reserves	Interest	\$ 134,671	\$ 107,773	\$ 88,476	\$ 77,274	\$ 68,487
	Provisions:					
	Contingencies	121,602	74,163	44,625	3,019	—
	Rate stabilization	21,424	18,084	15,663	13,233	4,653
	Amortization of capital invested	32,943	29,730	27,859	27,083	25,763
		175,969	121,977	88,147	43,335	30,416
		\$ 310,640	\$ 229,750	\$ 176,623	\$ 120,609	\$ 98,903

Five-Year Consolidated Sales and Revenue

	1976	1975	1974	1973	1972
Electrical Energy Generated and Purchased (in millions of kWh)	Generated (net)	60,882	54,392	59,893	57,514
	Purchased	34,381	31,687	25,938	18,390
	Received as per agreement	1,972	2,629	133	61
		97,235	88,708	85,964	75,965
	67,321				
Less:	Losses and internal use	9,218	7,974	6,956	5,715
	Delivered as per agreement	2,794	3,212	1,130	1,099
	Increase in unbilled sales	1,206	585	183	471
		84,017	76,937	77,695	68,680
	60,396				
Electricity Sales (in millions of kWh)	Residential and farm	21,611	18,768	17,260	15,215
	Commercial (including Municipal)	14,673	13,113	12,033	11,149
	Industrial: Primary	27,055	24,506	27,100	24,566
	Secondary	1,816	1,778	2,710	2,171
	Street lighting and luminaires	599	576	539	512
	Transportation	157	151	142	160
	Wholesale: Primary	13,325	14,324	13,123	10,965
	Secondary	4,677	3,598	4,654	3,863
	Interdepartmental	104	123	134	79
		84,017	76,937	77,695	68,680
	60,396				
Sales Revenue (in thousands of dollars)	Residential and farm	\$ 376,990	\$ 315,358	\$ 269,075	\$ 235,615
	Commercial (including Municipal)	260,939	218,218	182,761	164,842
	Industrial: Primary	260,736	218,308	201,068	171,760
	Secondary	8,171	8,188	9,042	5,228
	Street lighting and luminaires	23,618	20,188	17,083	15,196
	Transportation	2,094	1,700	1,420	1,482
	Wholesale: Primary	77,912	75,940	67,053	49,472
	Secondary	35,430	34,341	27,500	10,247
	Interdepartmental	345	370	406	261
		\$1,046,235	\$ 892,611	\$ 775,408	\$ 654,103
	\$ 561,145				
Average Revenue (cents per kWh)	Residential and farm	1.744c	1.680c	1.559c	1.549c
	Commercial (including Municipal)	1.778c	1.664c	1.519c	1.479c
	Industrial: Primary	0.964c	0.891c	0.742c	0.699c
	Secondary	0.450c	0.460c	0.334c	0.241c
	Wholesale: Primary	0.585c	0.530c	0.511c	0.451c
	Secondary	0.757c	0.954c	0.591c	0.265c
	Other	3.029c	2.619c	2.320c	2.256c
Total Customer Accounts	(year-end)	2,188,222	2,135,724	2,080,650	2,017,079
	1,943,119				
Residential and Farm Accounts	(year-end)	1,941,604	1,893,969	1,841,671	1,783,871
	1,716,529				

Statistics of Electricity Generated and Purchased and its Disposal in 1976

Gross Generation		The consolidated system (in millions of kWh)	
Hydro-Electric Stations			
Upper Ottawa	(5 plants)		2,550
Gatineau	Paugan	1,055	
	Others (3 plants)	1,155	2,210
Lower Ottawa	Carillon	2,448	
	Others (7 plants)	920	3,368
Upper Saint Lawrence	Beauharnois	11,555	
	Other (1 plant)	934	12,489
Saint Maurice	La Trenche	1,658	
	Beaumont	1,455	
	La Tuque	1,244	
	Shawinigan 3	1,105	
	Others (4 plants)	3,813	9,275
Bersimis	Bersimis 1	5,589	
	Bersimis 2	2,865	8,454
Outardes	Outardes 3	3,597	
	Outardes 4	4,342	7,939
Manicouagan	Manic 5	5,848	
	Manic 2	4,898	
	Manic 1	565	
	Manic 3	2,845	14,156
Other rivers	(14 plants)		546
Total	(49 hydro-electric plants)		60,987
Thermal-Electric Stations			
	(15 plants until mid-December, then 16 plants thereafter)		219
Total gross generation	(64 plants, then 65)		61,206
Less: station use			324
Total generation (net)			60,882
	Alcan		1,166
	Maclaren-Quebec Power Co.		625
	Churchill Falls (Labrador) Corporation Limited		32,025
	Sundry purchases		565
Total purchases			34,381
Plus: received as per agreement			1,972
Energy available			97,235
Less: delivered as per agreement			2,794
Energy available (net)			94,441
Total sales			84,017
Increase in unbilled sales			1,206
Losses and internal use			9,218
System peaks (MW)	Primary		15,412
	Secondary		271

Hydro-Québec Employees' Retirement Fund

Auditors' Report

We have examined the statement of assets and reserve of the Hydro-Québec Employees' Retirement Fund as at December 31, 1976, and the statement of revenue and expenditure for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the assets of the Fund as at December 31, 1976, and its revenue and expenditure for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Canada,
April 7, 1977.

Samson, Bélair & Associés
Chartered Accountants

H. Marcel Caron & Associés
affiliated with Clarkson, Gordon & Co.
Chartered Accountants

Hydro-Québec Employees' Retirement Fund

Statement of Revenue and Expenditure

(in thousands of dollars)
for the year ended December 31

		1976	1975
Revenue	Current contributions:		
	Employees	\$ 9,328	\$ 7,618
	Hydro-Québec	18,920	15,047
		<u>28,248</u>	<u>22,665</u>
	Contribution by Hydro-Québec for initial actuarial deficit (Note)	2,108	2,108
		<u>30,356</u>	<u>24,773</u>
	Additional past service contributions less cancellations	63	91
		<u>30,419</u>	<u>24,864</u>
	Less refunded to employees leaving service	529	528
		<u>29,890</u>	<u>24,336</u>
	Revenue from investments	19,319	15,840
		<u>49,209</u>	<u>40,176</u>
Expenditure	Pensions paid	4,417	3,947
Net revenue transferred to reserve		<u>\$ 44,792</u>	<u>\$ 36,229</u>

See accompanying note

Hydro-Québec Employees' Retirement Fund

Statement of Assets and Reserve

(in thousands of dollars)
as at December 31

	1976	1975
Assets		
(note) Investments, at cost		
Bonds of, or guaranteed by the Province of Quebec	\$ 215,869	\$ 165,462
Municipal and School Commission bonds	24,907	24,806
Government of Canada bonds	3,280	833
(Par value \$251,759, market value \$234,833)	<u>244,056</u>	<u>191,101</u>
Common stocks (market value \$1,240)	1,180	1,868
Short-term investments	4,000	10,000
	<u>249,236</u>	<u>202,969</u>
Accrued interest on investments	5,474	4,460
Past service contributions receivable from employees	61	79
Amount receivable from Hydro-Québec	1,385	3,856
	<u>\$ 256,156</u>	<u>\$ 211,364</u>
Reserve		
Balance, beginning of year	\$ 211,364	\$ 175,135
Net revenue for the year	44,792	36,229
Balance, end of year	<u>\$ 256,156</u>	<u>\$ 211,364</u>

See accompanying note

On behalf of Hydro-Québec:
(signed) Roland Giroux
(signed) Robert Boyd

(signed) E.-A. Lemieux
General Manager,
Finance.

Montreal, Canada,
April 7, 1977.

Note to Financial Statements

December 31, 1976

These statements show only the position of the assets of the Hydro-Québec Employees' Retirement Fund, but do not purport to show the adequacy of the fund to meet the obligations of the Hydro-Québec retirement plan which are guaranteed by Hydro-Québec. An actuarial survey of the obligations of the plan as of December 31, 1974 shows an actuarial deficit in respect of services prior to 1966 of approximately \$28 million, and an experience deficiency at December 31, 1974 in respect of current services of approximately \$5 million.

Hydro-Québec assumes the annual amortization (\$2,108,000) of the initial actuarial deficit over a period ending December 31, 1995. The experience deficiency at December 31, 1974 for current services is being amortized over a period of 5 years, from 1975 to 1979 inclusive. As a result, contributions to the fund are sufficient to cover obligations in respect of current services and the amortization of the above actuarial deficit in respect of past services over a period ending December 31, 1995.
